

Message Text

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SUBJ: MEETING WITH ORLANDO SAENZ AT NAIROBI

1. ORLANDO SAENZ, CHILEAN REPRESENTATIVE TO IMF/IBRD NAIROBI MEETINGS MET WITH HENNESSY AND WEINTRAUB TO OUTLINE AND EXPLAIN GOC ECONOMIC-POLITICAL PLANS. SAENZ OUTLINED THREE SHORT-RUN OBJECTIVES TO DEAL WITH THE IMMEDIATE NEED FOR AN ESTIMATED \$200 MILLION TO THE END OF THIS YEAR. FIRST, THE CHILEAN FOREIGN MINISTER, WHO PLANS TO VISIT UNGA STARTING OCTOBER 8, HOPES ALSO TO TALK TO NEW YORK BANKS ON OCTOBER 8-9 TO REQUEST LINES OF CREDIT TO FINANCE URGENT IMPORTS. SECOND, ON OCTOBER 10 AND 11 THE CHILEAN TEAM EXPECTS TO BE IN WASHINGTON TO CONSULT WITH THE US (HE KNEW ABOUT CCC CREDITS OFFER BY US) AND INTERNATIONAL FINANCIAL INSTITUTIONS TO REQUEST IMF DRAWINGS. THIRD, THE CHILEAN TEAM WANTS TO MEET WITH INTERESTED INDUSTRIALISTS TO ENCOURAGE PRIVATE FOREIGN INVESTMENT TO RECONSTRUCT DAMAGED FACTORIES AND QUICKLY REVIVE INDUSTRIAL PRODUCTION. SAENZ SAID THAT CHILE WILL PROPOSE MODIFICATION OF THE ANDEAN INVESTMENT CODE. FOURTH, THE CHILEAN TEAM WANTS TO TALK TO THE US COPPER COMPANIES (THIS VERY CONFIDENTIALLY) TO DISCUSS WAYS THAT WILL INCREASE COPPER PRODUCTION AND EXPORTS. SAENZ SEEMED TO BE IMPRESSED BY THE POSSIBILITY OF SERVICE CONTRACTS

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THAT MIGHT HELP SOVE THE COMPENSATION PROBLEM WHICH HE REALIZED HAD TO BE DEALT WITH. SAENZ SAID THAT CHILE NEEDED TECHNICAL AND FINANCIAL ASSISTANCE TO REVIVE COPPER PRODUCTION LEVELS BUT ALSO TO OPEN NEW MINES. HENNESSY AGREED THAT THE TEAM SHOULD TALK TO THE COPPER COMPANIES DIRECTLY TO WORK OUT A MUTUALLY ACCEPTABLE SOLUTION. HE ALSO STATED IN RESPONSE TO A SAENZ STATEMENT THAT EVEN THE NEW GOVERNMENT WOULD NOT BE ABLE TO REVERSE ALL ACTIONS THAT HE BELIEVED FROM BRIEF TALKS WITH COPPER COMPANIES THAT THEY WOULD BE PRAGMATIC AND WOULD NOT SEEK TO TURN BACK THE WORDS OF TIME.

2. SAENZ SAID CHILE WILL ASK TO POSTPONE PARIS CLUB, PERHAPS UNTIL DECEMBER. HENNESSY URGED AS MUCH SPEED AS FEASIBLE IN PARIS CLUB TO ESTABLISH CHILE'S FINANCIAL BONA FIDES.

3. SAENZ BEGAN BY EXPLAINING THE ECONOMIC AND FINANCIAL CRISIS. HE ESTIMATES CHILE'S BALANCE OF PAYMENTS NEEDS AT ABOUT \$500 MILLION BY YEAR END, OF WHICH \$300 MILLION IN DEBTS AND \$200 MILLION TO PAY FOR IMPORT NEEDS. THIS IS THE RESULT OF A SHARP DIP IN COPPER PRODUCTION AND EXPORTS, AN ABSOLUTE DROP IN AGRICULTURAL AND INDUSTRIAL PRODUCTION. SAENZ SAID THAT CHILE NEEDS A FINANCIAL GRACE PERIOD OF AT LEAST A YEAR TO BRING FINANCIAL ORDER.

4. SAENZ SAID THAT CHILE SIMULTANEOUSLY HAS A POLITICAL-PSYCHOLOGICAL PROBLEM TO OVERCOME ON BOTH DOMESTIC AND INTERNATIONAL FRONTS. SAENZ REFERRED TO A POLITICAL-ECONOMIC APPROACH. HE RAISED THE ISSUE OF SEEKING AN INTERNATIONAL GROUP TO BE ORGANIZED BY SANZ DE SANTAMARIA TO VISIT CHILE IN THE LATTER PART OF OCTOBER AND PROVIDE NOT ONLY EI CREDITABLE PUBLIC REPORT ON ECONOMIC AND FINANCIAL CONDITION TO PREPARE THE WAY FOR FUTURE IFI LOANS, BUT ALSO TO PROVIDE POLITICAL JUSTIFICATION FOR THE MILITARY JUNTA TO TAKE ACTIONS RECOMMENDED BY INTERNATIONALLY RESPECTED TECHNICIANS AND INSTITUTIONS. HENNESSY AND WEINTRAUB SUGGESTED THAT AN IMF TEAM MIGHT BE MORE USEFUL IN A PRACTICAL SENSE BUT PROMISED NEVERTHELESS TO DISCUSS SUBJECT WITH SANZ.

5. SAENZ ASKED IF THE US COULD HELP ORGANIZE AN INTERNATIONAL HUMANITARIAN AID EFFORT TO MEET THE PROBLEM OF HUNGER AND THE NEED FOR MEDICINES AND EMERGENCY SUPPLIES AND EQUIPMENT.

WEINTRAUB SAID HE THOUGHT THIS WOULD BE DONE UNILATERALLY

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BY COUNTRIES BUT THAT HE WOULD PURSUE THIS UPON HIS RETURN TO WASHINGTON.

6. SAENZ SAID THAT HE HAD NOT CONTACTED OTHER LATIN DELEGATIONS PARTICULARLY BRAZIL, EUROPEANS OR COMMERCIAL BANK REPRESENTATIVES VISITING NAIROBI. HENNESSY AND WEINTRAUB SAID THAT THEY WOULD TRY TO BE HELPFUL IN ARRANGING MEETINGS HERE FOR HIM

WITH BANKERS AND WOULD DISCUSS SWARATELY WITH THE WORLD BANK
AND FUND THEIR PLANS. HENNESSY AND WEINTRAUB ALSO AGREED IF
NECESSARY TO PURSUE WITH COUNCIL OF THE AMERICAS IDEA OF
SETTING UP NEW YORK MEETING WITH INDUSTRIALISTS ON OCTOBER
8-10.

7. US AGREED TO CONTINUE TO MAINTAIN CLOSE PRIVATE CONTACTS
AND TO BE AS HELPFUL AS POSSIBLE, BUT FROM BOTH POSITIONS,
IT WOULD BE BETTER TO PROCEED CAUTIOUSLY IN PUBLIC FORUMS
AVOIDING POLEMICS.SHULTZ

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